
Legislative Fiscal Division

Revenue Estimate Profile

Pine Hills Interest and Income

Revenue Description: Lands granted by the federal government to the state for the benefit of public schools and various state institutions generate income. These lands produce revenue through rents or crop shares for agricultural purposes, royalties from the sale of mineral rights, and sales of timber. Income from certain portions of public school/institution lands has been designated for the support of the Pine Hills youth correctional facility. Thus, some of these funds are deposited into a component of the trust and legacy trust fund referred to as the Pine Hills trust, which generates interest earnings for the state. As of October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to a newly-created Trust Funds Bond Pool (TFBP). The majority of trust and legacy trust funds are invested as part of the TFBP. Some funds, however, are invested on a short-term basis in the state's Short Term Investment Pool (STIP). The state constitution prohibits the investment of the permanent trust in common stock.

With the enactment of SB 65 by the 2009 Legislature, up to 25% of Pine Hills revenue can be diverted to the trust land administration account to fund Department of Natural Resources and Conservation (DNRC) administration costs. This revenue can include distributable revenue, mineral royalties, and timber revenue. Diversions reduce the amount of revenue distribute to the trust beneficiaries. Revenue diverted from the Pine Hills permanent trust fund reduces the growth of the trust balance and, hence, reduces the amount of distributable interest earnings. The legislation was effective July 1, 2009.

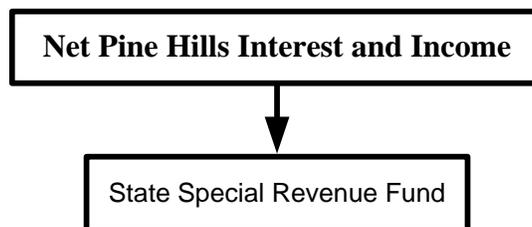
Statute:

- Tax Rate – NA
- Distribution (MCA) – 17-3-1003
- Enabling Act, Sections 11 & 17
- Other (MCA) – DNRC trust land administration diversion (77-1-108 & 109)
DNRC land bank administration diversion (77-2-362)

Applicable Tax Rate(s): N/A

Distribution: Interest and income from the trust, net of amounts to fund DNRC administration, is allocated to the Department of Corrections for support of the Pine Hills youth correctional facility.

Distribution Chart:



Collection Frequency: Monthly

% of Total General Fund Revenue: N/A

Revenue Estimate Methodology:

The estimate for interest and income from the Pine Hills trust determines the net amount of revenue that will be distributed to the trust beneficiary. This means that in addition to estimating the various distributable revenues from the Pine Hills land grant trust, estimates of the diversions that reduce the amount of distributable revenue must also be estimated. Therefore, the estimated amounts shown for this revenue source are not total revenues, but are net of diversions. Permanent revenue (revenue that is not distributed, but remains in the trust such as from timber and mineral royalties), is estimated as part of the entire Trust and Legacy account (T & L) and earnings are portioned to this trust according to the number of shares owned.

Legislative Fiscal Division

Revenue Estimate Profile

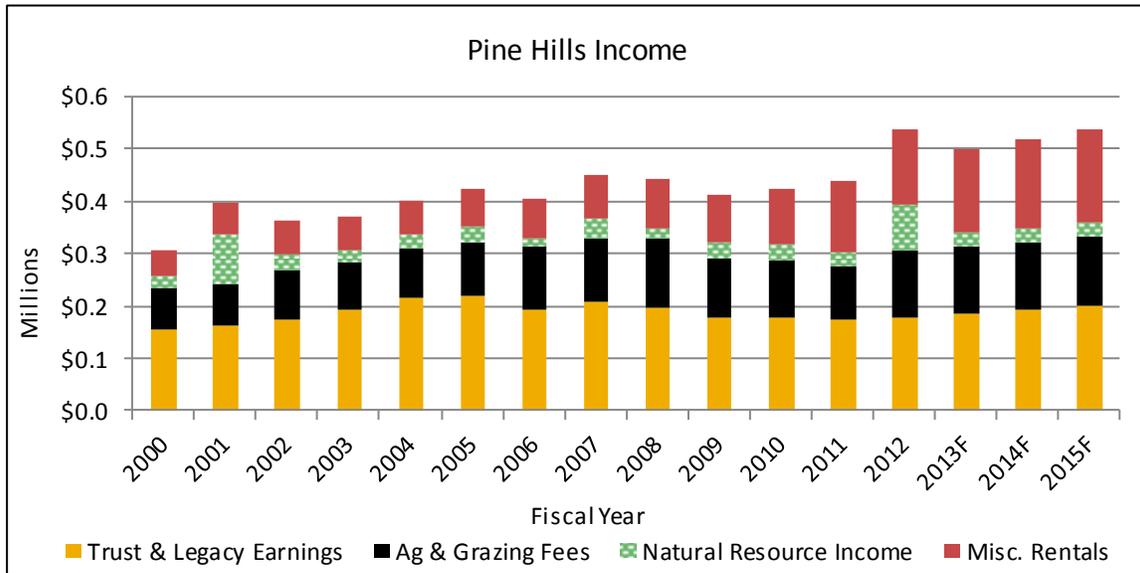
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Data

Data from SABHRS provide a history of each individual interest and income revenue component. Department of Natural Resources and Conservation (DNRC) annual reports and other data provide additional information such as production and timber estimates.

Analysis

The estimate is produced by estimating the distributable revenue components and then subtracting the diversions.



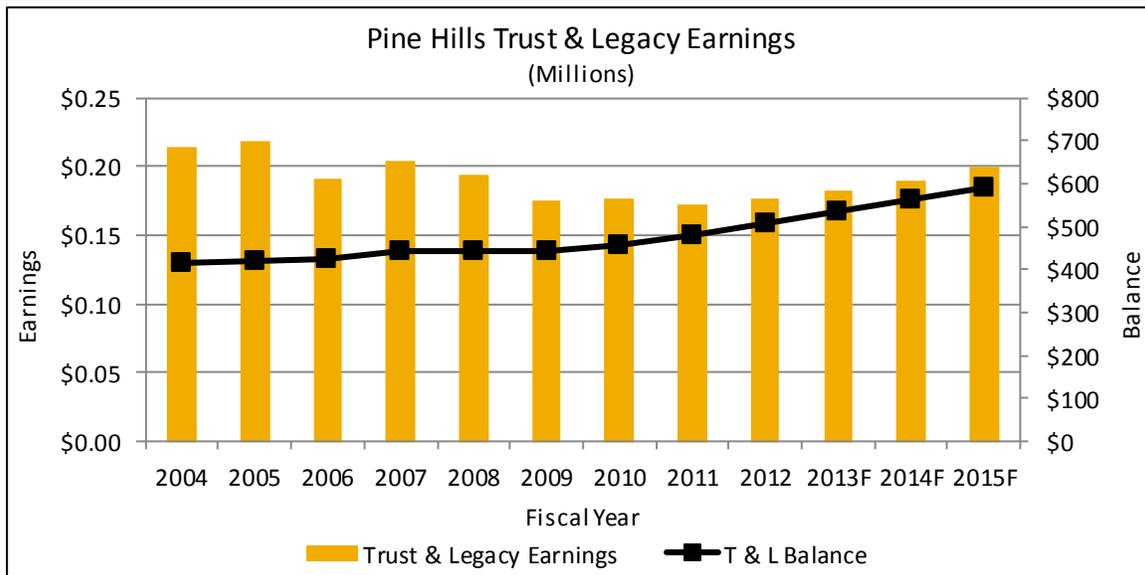
Revenue Components

- Trust and Legacy Earnings (see the figure below) – The monetary assets of the trust are pooled with monetary assets of other land trusts in the T & L and invested by the Board of Investment in the trust funds bond pool. Based on the number of share each trust owns, a share of the earnings is deposited in each trust. For the Pine Hills trust, the share is 0.8%. Total pool earnings is a sum of the following:
 - Earnings from new deposits – New deposits initially earns interest at the short-term rate before it is invested in a longer term investment.
 - Earnings from existing balance – The majority of these funds have been invested in bonds purchased over the past several years and average a return rate of 5.2%.
 - Non-portfolio earnings – Money not invested in the trust funds bond pool earns interest at the short-term rate.
 Once the total amount of the pool earnings has been estimated by summing the above three items, the Pine Hills trust share of 0.8% is applied.

Legislative Fiscal Division

Revenue Estimate Profile

Pine Hills Interest and Income



2. Grazing Fees – Rates are tied to the price of cattle, which is expected to be similar to the most recent fiscal year. Therefore, the amount of fees received in the base year is used for all forecast years.
3. Miscellaneous Rentals – These are small income components that are combined and estimated together. For each fiscal year estimated, the estimate is based on a 10-year average growth rate.
4. Agricultural Fees – Fees are based on a crop share basis. Commodity prices are expected to be about the same as the most recent fiscal year, resulting in similar returns. Therefore, fees received in the base year are used for all forecast years.
5. Oil & Gas Leases – For each fiscal year estimated, the estimate is the average of the previous two years.
6. Oil & Gas Bonuses & Penalties – No bonuses are anticipated in the forecast period. Future penalties are estimated at the same level of the most recent fiscal year.

Diversions

Diversions fund operational costs in DNRC, but reduce the amount of revenue distributed to the trust beneficiaries. To determine future diversion amounts, DNRC estimates are for all forecast years are used. All the costs are funded with distributable revenue.

Adjustments and Distribution

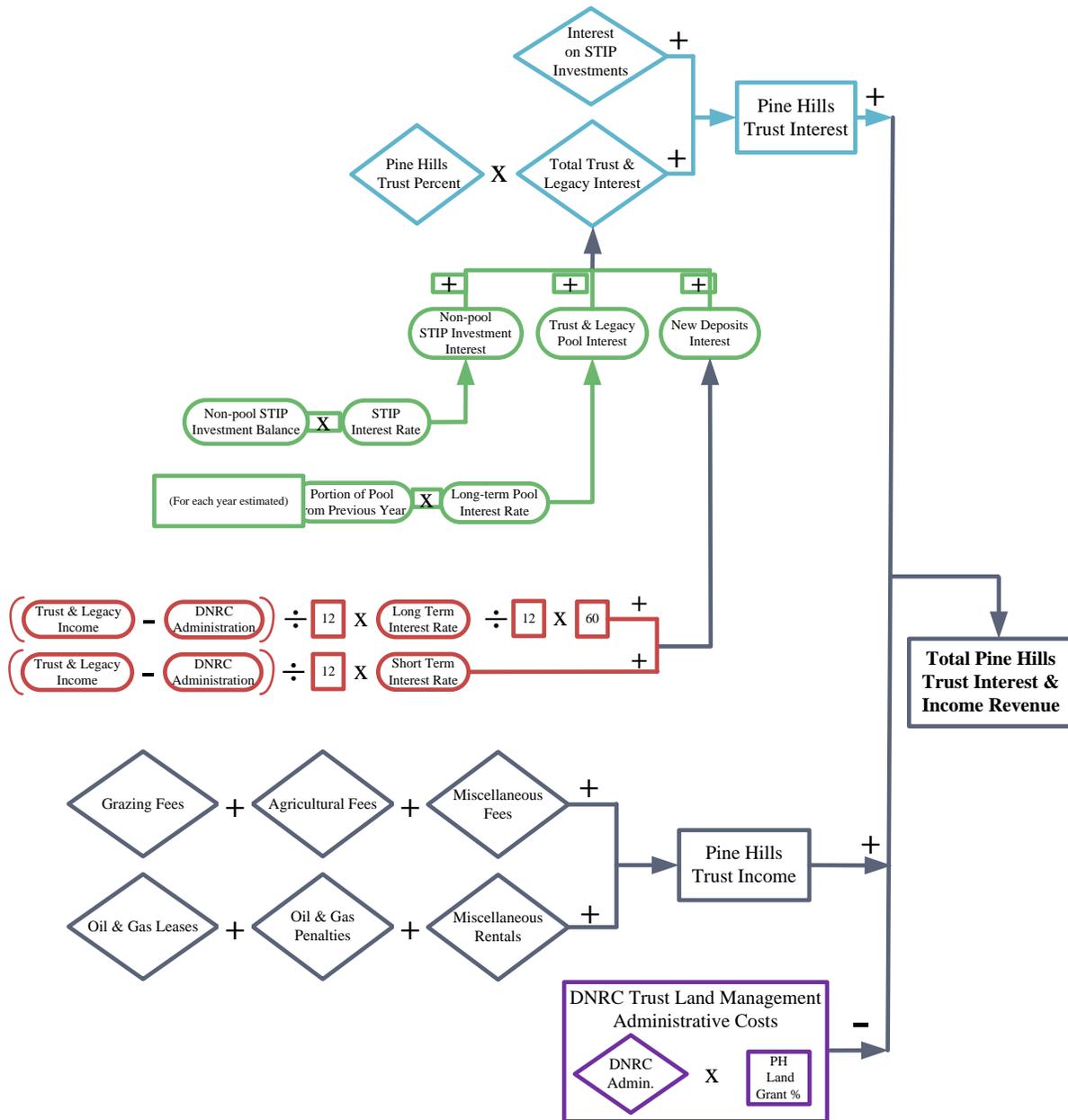
Once total revenue and total diversions have been estimated, the net amounts are distributed to the state special revenue fund.

Legislative Fiscal Division

Revenue Estimate Profile

Pine Hills Interest and Income

Forecast Methodology:



Legislative Fiscal Division

Revenue Estimate Profile

Pine Hills Interest and Income

Revenue Estimate Assumptions:

	t	Total Rev.	GF Rev.	TFBP	STIP	Pine
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Interest</u>	<u>Interest</u>	<u>Hills Share</u>
				<u>Millions</u>	<u>Millions</u>	<u>T&L</u>
Actual	2002	0.355	0.000	29.627	0.103	0.006
Actual	2003	0.364	0.000	29.147	0.068	0.007
Actual	2004	0.394	0.000	30.087	0.054	0.007
Actual	2005	0.415	0.000	28.106	0.270	0.008
Actual	2006	0.397	0.000	24.428	0.408	0.008
Actual	2007	0.443	0.000	26.207	0.268	0.008
Actual	2008	0.435	0.000	25.160	0.129	0.008
Actual	2009	0.437	0.000	22.711	0.066	0.008
Actual	2010	0.263	0.000	22.916	0.018	0.008
Actual	2011	0.326	0.000	23.194	0.033	0.008
Actual	2012	0.393	0.000	24.175	0.028	0.008
Forecast	2013	0.302	0.000	23.209	0.411	0.008
Forecast	2014	0.370	0.000	24.111	0.512	0.008
Forecast	2015	0.392	0.000	25.245	0.641	0.008

	t	Trust Income	Trust Land	New Deposit	Non Pool	Non Pool
	<u>Fiscal</u>	<u>New Deposit</u>	<u>Admin.</u>	<u>Long Term</u>	<u>STIP</u>	<u>STIP Bal</u>
		<u>Millions</u>	<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>
Actual	2002	2.348	0.000	6.2%	2.6%	7.334
Actual	2003	2.363	0.000	5.7%	1.4%	6.242
Actual	2004	2.972	0.000	5.4%	1.3%	7.050
Actual	2005	1.458	0.000	5.2%	2.4%	12.107
Actual	2006	1.425	0.000	5.2%	4.1%	3.863
Actual	2007	7.174	0.000	5.4%	4.7%	14.954
Actual	2008	3.102	0.000	5.3%	3.1%	2.461
Actual	2009	4.126	0.000	5.1%	1.0%	4.161
Actual	2010	10.710	0.000	4.8%	0.2%	11.340
Actual	2011	22.233	0.000	4.4%	0.1%	15.565
Actual	2012	31.517	0.000	3.8%	0.1%	11.492
Forecast	2013	25.974	0.000	3.5%	0.1%	11.492
Forecast	2014	29.101	0.000	3.9%	0.2%	11.492
Forecast	2015	27.623	0.000	4.5%	0.5%	11.492

Legislative Fiscal Division

Revenue Estimate Profile

Pine Hills Interest and Income

	t	Grazing	Agriculture	Misc.	O&G Lease	O&G Bonus	O&G Penalty	Misc.
	<u>Fiscal</u>	<u>Millions</u>						
Actual	2002	0.078	0.017	0.064	0.022	0.000	0.007	0.000
Actual	2003	0.071	0.019	0.065	0.021	0.000	0.002	0.000
Actual	2004	0.072	0.022	0.065	0.024	0.000	0.002	0.000
Actual	2005	0.085	0.015	0.071	0.023	0.001	0.009	0.000
Actual	2006	0.093	0.027	0.077	0.007	0.003	0.004	0.000
Actual	2007	0.105	0.017	0.086	0.013	0.017	0.007	0.000
Actual	2008	0.093	0.039	0.097	0.012	0.000	0.008	0.000
Actual	2009	0.093	0.021	0.092	0.022	0.000	0.010	0.000
Actual	2010	0.084	0.024	0.106	0.025	0.000	0.005	0.000
Actual	2011	0.080	0.023	0.135	0.024	0.000	0.002	0.000
Actual	2012	0.100	0.030	0.147	0.033	0.047	0.005	0.000
Forecast	2013	0.100	0.030	0.157	0.023	0.000	0.005	0.000
Forecast	2014	0.100	0.030	0.167	0.023	0.000	0.005	0.000
Forecast	2015	0.100	0.030	0.178	0.023	0.000	0.005	0.000

	t	Int. Land	Int. STIP	Int. Trust	Timber	Res. Dev.	TLMD Adm.
	<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	0.000	0.000	0.174	0.000	-0.005	
Actual	2003	0.000	0.000	0.192	0.000	-0.005	
Actual	2004	0.000	0.000	0.214	0.000	-0.006	
Actual	2005	0.000	0.000	0.218	0.000	-0.006	
Actual	2006	0.000	0.000	0.192	0.000	-0.006	
Actual	2007	0.000	0.000	0.205	0.000	-0.007	
Actual	2008	0.000	0.000	0.194	0.000	-0.007	
Actual	2009	0.000	0.000	0.175	0.000	-0.008	
Actual	2010	0.000	0.000	0.177	0.000	0.000	-0.158
Actual	2011	0.000	0.000	0.173	0.000	0.000	-0.112
Actual	2012	0.000	0.000	0.176	0.000	0.000	-0.115
Forecast	2013	0.000	0.000	0.182	0.000	0.000	-0.195
Forecast	2014	0.000	0.000	0.190	0.000	0.000	-0.145
Forecast	2015	0.000	0.000	0.200	0.000	0.000	-0.144

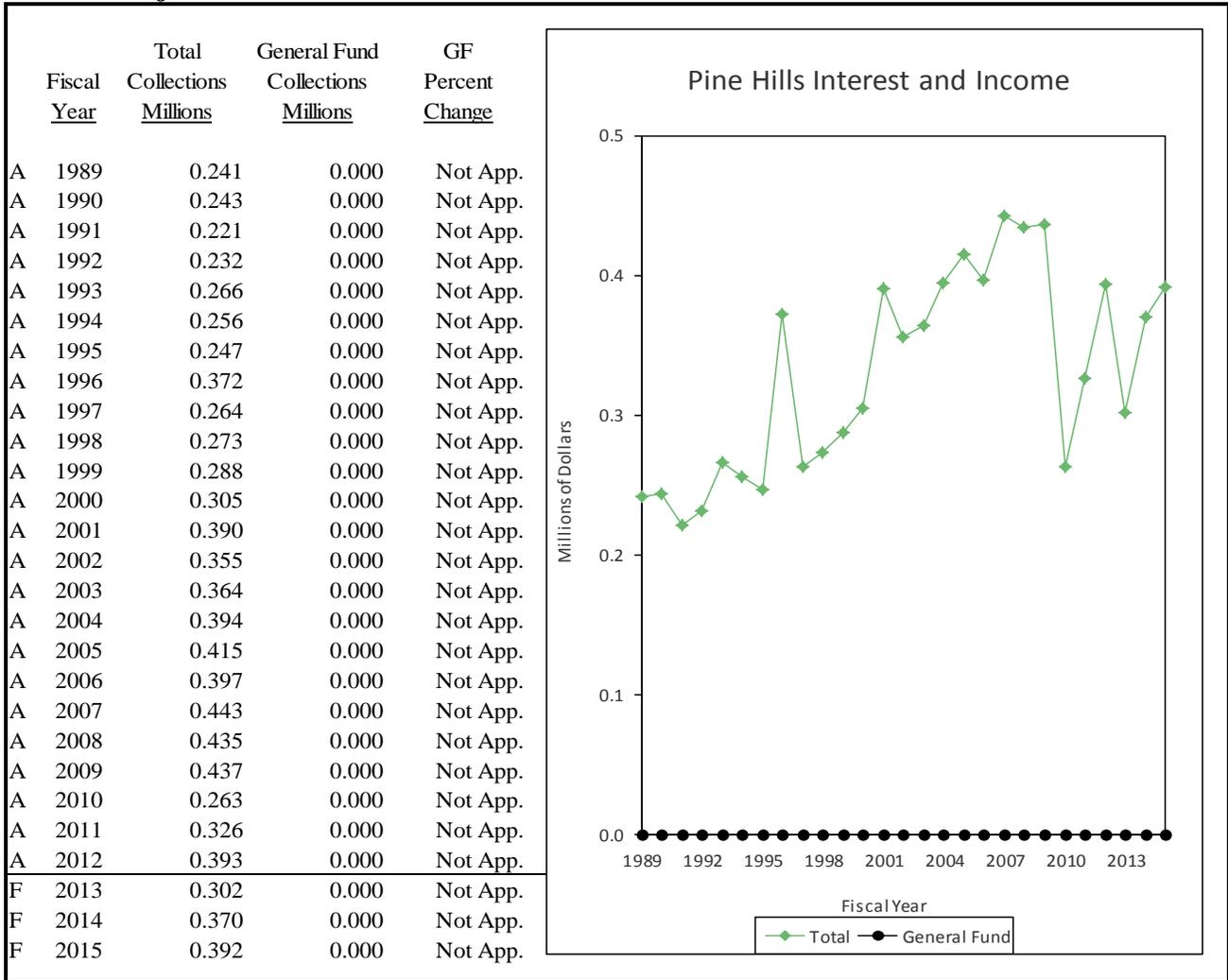
Total Rev. = Grazing + Agriculture + O&G Lease + O&G Bonus + O&G Penalty + Misc. +
Int. Land + Int. Stip + Int. Trust + Timber + Res. Dev. + TLMD Adm.

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Revenue Projection:



Data Source(s): Board of Investments, SABHRS, *Wall Street Journal*, IHS, Department of Natural Resources and Conservation

Contacts: Department of Natural Resources and Conservation